

INFORMED BUDGETEER

THE CAPS - HISTORY AND ADJUSTMENTS											
(\$ in Billions)											
		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Statutory Caps	BA	491.7	503.4	511.5	510.8	517.7	519.1	528.1	530.6	533.0	537.2
	OT	514.4	524.9	534.0	534.8	540.8	547.3	547.3	547.9	559.3	564.3
Emergencies	BA	45.1	22.3	5.2	12.2	7.7	5.1	9.3	5.7	30.8	- -
	OT	34.4	16.7	13.0	11.8	11.2	6.4	8.1	7.0	22.6	8.7
Legislative/Tea-21 Rescissions	BA	N/A	N/A	N/A	N/A	-15.0	-0.1	-0.1	-6.9	-0.9	-0.9
	OT	N/A	N/A	N/A	N/A	-1.1	-3.5	-2.4	5.4	1.1	2.7
Other Statutory IMF,CDRs	BA	0.2	0.2	13.0	0.6	0.7	0.1	0.2	0.9	19.4	- -
	OT	0.2	0.3	0.8	0.8	0.9	0.1	0.3	0.6	1.1	0.2
Technical/other Inflation/Concepts	BA	0.1	10.7	6.0	1.5	-0.1	2.4	2.3	3.1	-0.1	-0.1
	OT	2.6	3.8	2.6	0.2	-3.2	2.5	0.3	-0.6	-0.2	*
Total adjustments	BA	45.4	33.2	24.2	14.3	-6.7	7.5	11.7	2.8	49.1	-0.9
	OT	37.2	20.8	16.4	12.8	7.8	5.5	6.3	12.4	24.6	11.5
Adjusted limits	BA	537.1	536.6	535.7	525.1	511.0	526.7	539.7	533.5	582.1	536.3
	OT	551.6	545.7	550.4	547.6	548.6	552.7	553.7	560.2	583.9	575.8

SOURCE: OMB Sequestration Update report for FY 2000 (August 1999). \*Less than 50 Million

THE 13<sup>TH</sup> MONTH: AN UNLUCKY METAPHOR

- Last week, a hue and cry was myopically raised about the supposed invention of a 13<sup>th</sup> month for FY 2000 to solve the problem of tight caps. However, informed budgeteers who search their short-term memory and are willing to invest a few minutes in some homework will realize that all the “splash” about a 13<sup>th</sup> month is just making news out of a familiar budgetary device – the advance appropriation.
- Last week’s *Bulletin* Budget Quiz addressed speculation that one possible solution to the tight caps on discretionary appropriations this year might be to shift funding for portions of certain programs from 2000 into 2001. Recall that, OMB Circular #A-11 (July 12, 1999) defines an advance appropriation as an appropriation of budget authority that becomes available one or more fiscal years beyond the fiscal year for which the appropriation act was passed. Most recently, FY1999 appropriation action advanced \$11.6 billion in budget authority into FY 2000.
- Congress did not just now invent the notion of using advance appropriations for the FY 2000 appropriations process. As the table below shows, the President’s Budget for FY2000 proposed advancing nearly \$19 billion in budget authority and a resulting \$10 billion in outlays into FY 2001. Of the President’s proposed advances in budget authority, \$9.6 billion were advances that would be repeated from FY1999 appropriations legislation, while the remaining \$9.2 billion were proposals for new advances.
- The President’s Budget had proposals for new advances in three areas of spending. First, the budget proposed \$3.1 billion in advance budget authority in FY 2001 for military construction (see table above). The outlays that would result from this budget authority in 2001 would be nearly \$1 billion. However, the Congress rejected this approach and the Military Construction appropriation for FY2000 was signed into law **without** shifting funding out of 2000.
- The President also proposed an advance appropriation of \$4.2 billion in budget authority for FY 2001 to renew Section 8 housing contracts (see table above). Outlays of \$1 billion in 2001 result from that level of budget authority. Although this advance is not included in the House-passed version of the VA-HUD appropriations bill, the Senate bill goes along with the President’s approach of funding Section 8 renewals over two years. Such action would free up money for other priorities in FY 2000. Finally, the President proposed almost \$2 billion in advanced budget authority for special education in 2001, with resulting outlays of more than \$1 billion in that year.

Advance Appropriations in the President’s FY 2000 Budget		
(\$ in Millions)		
	2001 BA	2001 OT
Agriculture		
Rural housing service- rental assistance	200	7
Commerce, Justice, State		
Patent and Trademark Office	106	69
Federal Trade Commission	28	26
Securities and Exchange Commission	271	233
<u>United States Trustee System Fund</u>	<u>7</u>	<u>7</u>
Subtotal	412	335
Labor, HHS		
Special Education*	1,925	1,348
Education for the disadvantaged	6,148	4,304
Corporation for Public Broadcasting	360	360
Low income energy assistance	1,100	825
<u>Payments to states for CCDBG</u>	<u>1,183</u>	<u>860</u>
Subtotal	10,716	7,697
Military Construction		
Family Housing*	430	164
Military Construction*	2,054	650
<u>Base realignment and closure account*</u>	<u>577</u>	<u>174</u>
Subtotal	3,061	988
Treasury, Postal:		
Payment to the Postal Service Fund	164	164
VA, HUD:		
Housing certificate fund*	4,200	1,006
TOTAL	18,753	10,197
Of which: New advances proposed	9,186	3,342
Advances continued from FY 1999	9,567	6,855

SOURCE: CBO’s reestimate of the President’s FY 2000 Budget. \*These advances were not included in appropriations legislation for FY 1999. They are new advances proposed by the President in the FY 2000 Budget.

✎EDITOR’S NOTE: In the last *Bulletin*, there was a typo in the example of advance appropriations: "to become available on Oct. 1, 2000" the error, should have read "to become available on Oct. 1, 2001." We missed a "1"; sorry for the confusion.

CONTINUING 302(b) UPDATE

- Catching up with past action as well as imminent ones, the Senate Appropriations Committee filed a revised allocation on September 14. The new 302(b)s reflect conference action on the Military Construction, Leg. Branch, DC, and Treasury-General Government appropriation bills.
- The other key feature of the reallocation is a shift of funds from Labor-HHS to VA-HUD, which marked up its bill in full committee last week. The House and Senate allocations for VA-

HUD are now significantly closer than they had been, suggesting a possibility that a conference bill might ultimately be forged. However, for the same reason--i.e. the House and Senate have borrowed from the Labor-HHS allocation to get out their VA-HUD bills--the Labor-HHS allocations are quite similar, and low. Therefore, many of the questions about how the appropriations process for FY2000 will be resolved now are concentrated in the Labor-HHS bill.

Comparison of 302(B) Allocation for FY2000 (\$ in Billions)						
	Senate		House		Senate vs. House	
	BA	OT	BA	OT	BA	OT
Agriculture	14.0	14.3	13.9	14.3	0.1	-0.1
Commerce	33.7	33.5	35.8	34.9	-2.1	-1.4
Defense	263.3	254.4	267.7	259.1	-4.4	-4.7
DC	0.4	0.4	0.5	0.4	*	-0.1
Energy-Water	21.3	20.9	20.2	20.1	1.1	0.7
Foreign Ops	12.7	13.2	12.6	13.2	0.1	*
Interior	13.9	14.3	13.9	14.4	*	-0.1
Labor-HHS	73.2	76.1	73.0	75.1	0.1	1.0
Legislative	2.5	2.5	2.5	2.5	*	*
Mil Con	8.4	8.8	8.4	8.8	--	--
Transportatio	12.0	42.9	12.4	43.4	-0.4	-0.5
n	13.7	14.1	13.7	14.1	--	*
Treasury	69.6	82.5	68.6	82.0	1.0	0.5
VA-HUD	--	0.6	--	--	--	0.6
Deficiencies	538.6	578.4	543.1	582.5	-4.5	-4.1
Total <sup>A</sup>						

<sup>\*</sup>Less than \$50 million. <sup>A</sup>The House has a higher total allocation because it declares the Census an emergency.

SOURCES OF FISCAL IMPROVEMENT

- In response to a request by Senator Nickles, CBO recently analyzed the sources of fiscal improvement from 1993 to 1998. It did so by comparing how actual budget results compared with its January 1993 multi-year projections. The results follow:

Sources of Change from 1993 Deficit/Surplus Projections (By fiscal year, \$ in Billions)							
	1993	1994	1995	1996	1997	1998	6-year Total
Jan. 1993 Baseline	-310	-291	-284	-287	-319	-357	-1,849
Changes							
Legislative							
Revenues	0	26	44	50	62	48	230
Outlays							
Discretionary	*	8	8	-23	-32	-25	-63
Mandatory	<u>3</u>	<u>-3</u>	<u>-11</u>	<u>-21</u>	<u>-44</u>	<u>-56</u>	<u>-131</u>
Subtotal	4	6	-2	-44	-76	-82	-194
Total Legislative	-4	20	46	94	139	130	425
Economic	*	21	13	39	67	137	277
Technical	<u>59</u>	<u>47</u>	<u>61</u>	<u>47</u>	<u>92</u>	<u>160</u>	<u>465</u>
Total Changes <sup>A</sup>	55	88	120	180	298	427	1,167
Deficit(-) or Surplus	-255	-203	-164	-107	-22	69	-682

SOURCE: CBO, \*Less than \$500 Million; <sup>A</sup>Effect on the deficit. NOTES: Economic changes can be traced to CBO’s macroeconomic forecasts. Technical revisions are any changes not ascribed to new legislation or revisions in the macroeconomic forecast. Some of those changes may be economic in nature but not directly tied to CBO’s Economic forecast. They could also reflect other factors, such as changes in the use of services by Medicare beneficiaries or adjustments in the rate at which discretionary programs are able to spend their budget authority.

- As can be seen, the cumulative 1993-1998 fiscal deficit came in \$1.2 trillion lower than CBO initially anticipated. However, it is interesting to note that legislative changes accounted for only one third of the overall improvement. Economic and technical factors

accounted for the remaining two thirds.

- While the legislative changes were nearly evenly split between tax increases and spending reductions, the timing of these changes was quite significant. The tax increases were implemented early on as part of President Clinton’s OBRA-1993 budget deal. However, the bulk of the \$194 billion in expenditure reductions did not occur until after Republicans took control of Congress in 1995.

- Expenditure restraint resulted from maintaining the discretionary caps, thus keeping spending under an inflated discretionary baseline as well as reforms made to welfare, farm programs and Medicare.

TAX BRACKETS FOR THE NEW MILLENNIUM

- The Consumer Price Index for August 1999, released September 15, was the last piece of information needed to index next year’s individual income tax brackets. For *Bulletin* readers who like to plan ahead, the following is CBO’s approximation of the individual tax parameters for 2000.
- The personal exemption amount will increase \$50, from \$2,750 in 1999 to \$2,800 in 2000. The standard deduction for individuals will increase \$100 to \$4,400 and the standard deduction for couples will jump \$150 to \$7,350 in 2000.
- A taxable income of \$288,350 will place you in the top marginal tax bracket of 39.6 percent in 2000.

2000 TAX PARAMETERS			
Personal Exemption \$2,800			
SINGLE: Rate Brackets			
Taxable Income	Rate %	Standard Deduction	
\$0-\$26,250	15.0	Regular	\$4,400
\$26,250-\$63,550	28.0	Elderly/Blind	\$1,100
\$63,550-\$132,600	31.0		
\$132,600-\$288,350	36.0	Exemption Phase-out	\$128,950
\$288,350 & Over	39.6	Itemized Phase-out	\$128,950
JOINT: Rate Brackets			
Taxable Income	Rate%	Standard Deduction	
\$0-\$43,850	15.0	Regular	\$7,350
\$43,850-\$105,950	28.0	Elderly/Blind	\$850
\$105,950-\$161,450	31.0	(Each)	
\$161,450-\$288,350	36.0		\$193,400
\$288,350 & over	39.6	Exemption Phase-out	\$128,950
		Itemized Phase-out	

- The maximum Earned Income Credit (EIC) for families with one child will be \$2,353 in 2000 -- \$41 more than in 1999. The maximum credit for two or more children will rise by \$72 in 2000, from \$3,816 to \$3,888.
- With one child, the EIC is completely phased out at \$27,413 in 2000(compared to \$26,928 in 1999). With two or more children the EIC is completely phased out at \$31,152 in 2000 (compared to \$30,580 in 1999).

EARNED INCOME CREDIT			
Type of Return	Maximum Eligible Earning	Maximum Credit	Phase-out point
Childless	\$4,610	\$353	\$10,380
One Child	\$6,920	\$2,353	\$27,413
Two or more	\$9,720	\$3,888	\$31,152

**CALENDAR**

October 19-20: 25<sup>th</sup> Anniversary of the Congressional Budget Act, Senate Budget Committee Hearings. In addition to the witnesses announced last week, Leon Panetta will be testifying on October 19 as part of the Legislative -Executive Relations panel. Mr. Panetta is a former Chairman of the House Budget Committee, Director of the Office of Management and Budget and White House Chief of Staff.